Bruce P. Beausejour

Vice President and General Counsel – New England
185 Franklin Street, 13th Floor
Boston, MA 02110

Tel: (617) 743-2445
Fax: (617) 737-0648
bruce.p.beausejour@verizon.com

June 26, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications & Energy
Commonwealth of Massachusetts
One South Station, Second Floor
Boston, MA 02110

Re: D.T.E. 01-20 Reply Comments of Verizon MA Regarding Its Revised Compliance Filing

Dear Ms. Cottrell:

Verizon MA hereby responds to the comments of AT&T and Conversent regarding Verizon MA's June 12, 2003 revised compliance filing. As explained below, AT&T's primary criticism ? that Verizon MA incorrectly revised the avoided cost percentage in its revised compliance filing in certain respects ? is incorrect and should be rejected. The other points raised by AT&T are either incorrect or identify minor inadvertent errors in Verizon MA's filing, which Verizon MA will correct. As for Conversent's comments, these do not relate to the substance of Verizon MA's compliance filing and thus are not even properly considered comments on that filing at all; Conversent instead has petitioned the Department to set an unreasonable schedule for Verizon MA's implementation of new rates and retroactive rate adjustments. As Verizon MA explains below, the relief Conversent requests is unnecessary and, in any event, impracticable. Verizon MA will implement the required rate changes as quickly as possible, and the Department should therefore reject Conversent's request.

Response to AT&T's Comments:

1. *Verizon MA Correctly Applied the Revised Avoided Cost Percentage:* AT&T's primary complaint is that Verizon MA allegedly failed to fully implement the 25.51 percent avoidable indirect cost percentage ordered by the Department (AT&T Comments, at 1-3). AT&T claims that Verizon MA wrongly input a zero value rather than the 25.51 percent figure when applying the avoided cost percentage to certain

indirect support investment accounts, which are used in calculating the Other Support and Common Overhead factors. AT&T is wrong, however, and its criticism rests on a basic misunderstanding of the Department's ruling on the avoided cost issue.

When the Department, in its May 29, 2003 *Order on Verizon MA's Compliance Filing*, ordered Verizon MA to change its proposed avoidable indirect cost percentage from 18.78 percent to 25.51 percent, the Department also directed Verizon MA to change the method by which the avoided cost percentage would be applied to the indirect expenses used in calculating Verizon MA's cost factors. Verizon MA's cost studies filed in February 2003 included capital expenses (depreciation, cost of capital, and taxes) in the calculation of avoided costs because Verizon MA understood the Department's initial order to require this approach (as this was the approach adopted by the Department in the *Consolidated Arbitrations*). The Department's May 29, 2003 Order, however, specifically "agree[d] with AT&T and order[ed] Verizon to exclude depreciation expense in its calculation of avoided cost." *Order on Verizon MA's Compliance Filing* at 24. As Exhibit A to the Order, in which the Department illustrated its calculation of the avoidable indirect cost percentage, demonstrates, the Department similarly concluded that *all* capital expenses (cost of capital and taxes, in addition to depreciation) should be excluded when calculating the avoided cost percentage. *Id*., Exhibit A.

AT&T nonetheless argues that Verizon MA should have reduced capital expenses through the *application* of the avoided cost percentage to the indirect capital expenses used in calculating Other Support and Common Overhead expense factors. But this makes no sense: the Department could not have been more clear that it does not expect capital expenses to be treated as avoidable ? an approach that makes sense given that capital costs are inherently *not* avoidable in the way operating and similar expenses may be. Since capital expenses are not avoidable, and thus should not be removed when calculating the avoided cost percentage, they likewise should not be reduced (*i.e.*, treated as avoided), through application of the avoided cost percentage.

Therefore, in its revised compliance filing, Verizon MA specifically removed capital expenses from the entire avoided cost calculation ? both when calculating the avoidable indirect cost percentage and when applying that percentage to the expenses used in calculating the annual cost factors in the UNE studies. Thus, as AT&T recognizes, the avoided cost percentage rose from 18.78 percent to 25.51 percent, and, consistent with this, no avoided cost percentage was applied (or, as AT&T notes was "set to zero") to the capital expense accounts used in calculating the Other Support and Common Overhead ACFs, so that the capital expenses were not treated as avoided. This was not an error, as AT&T misleadingly suggests, but the only rational and consistent application of the Department's ruling that capital expenses are not to be treated as avoidable costs. AT&T would have the Department establish rates that increase the avoided cost percentage by excluding capital expenses from its calculation while at the same time reducing the capital expenses in the annual cost factors through application of that percentage. The Department should not countenance such overreaching, and should reject AT&T's criticism.

2. *The Land and Building Factors Will Be Amended:* As AT&T notes (AT&T Comments, at 3), Verizon MA inadvertently failed to apply the updated, forward-looking-to-current ("FLC") factor of 65 percent in developing its revised land and building factors in the Loop Cost Analysis Model. Verizon MA will recalculate that factor and refile the portions of its recurring cost studies and revised tariff pages that are affected by this issue by July 3, 2003. Verizon MA believes these are limited to the 2 Wire Analog Loop, 2 Wire Digital Loop, 4 Wire Analog Loop, 4 Wire Digital Loop, DDS Loop, and DS1 Feeder Subloop recurring cost studies.

3. *Verizon MA's Transport Tariffs Are Correct:* AT&T's third claim (AT&T Comments, at 4) ? that Verizon MA's tariff rates for unbundled local common transport and unbundled toll common transport do not reflect the costs generated by Verizon MA's studies ? is incorrect. The rates are accurate. The actual rates in Verizon MA's tariff are composite (or blended) rates that utilize costs that are generated directly from Verizon MA's cost studies. Verizon MA clarified this point to the Department in its response to the Department's April 11, 2003 Compliance Filing Request 1. As Verizon MA explained in its response to that request, Verizon MA must develop composite common transport rates because it is unable to determine the specific route of each individual interoffice local or toll call carried on its network. The composite transport rates therefore reflect a blend of costs for tandem switching, shared tandem trunk ports, and common transport, to which the shared end office trunk port is added. The costs to which AT&T points, in contrast, are the costs for transport alone. Since a CLEC ordering unbundled common transport necessarily uses these other features as well, the rate properly reflects the composite costs. In its most recent compliance filing, Verizon MA did not include a direct citation to a cost study for the element(s) to which AT&T refers, but Verizon MA included the composite rates in the rate comparison matrix that was used in the tariff.

4. *The Field Dispatch Cost Placeholders Have No Cost Impact, But Will Be Removed:* AT&T's final point is that Verizon MA's revised compliance non-recurring cost model filing contains placeholders for field dispatch costs (AT&T Comments, at 4). Although this is in fact the case, such placeholders have no impact whatsoever on the rates contained in Verizon MA's tariff. Nonetheless, Verizon MA will revise the model and produce an electronic copy containing its revised compliance non-recurring cost studies with the field dispatch placeholders removed by July 3, 2003. Due to the amount of paper involved in reproducing the NRC filing, Verizon MA asks the Department to allow it to file only an electronic copy. Verizon MA also notes that it incorrectly included a reference in its compliance tracking matrix indicating that field dispatch placeholders were removed; as discussed, these placeholders had in fact not yet been removed.

Response to Conversent's Comments:

1. *The Deadline for Changes in Verizon MA's Billing Systems that Conversent Requests Is Impracticable and Unnecessary:* Conversent asks the

Department to set a deadline by which Verizon MA would have to certify that it has implemented the necessary changes in its billing system to bill CLECs, both prospectively and retroactively, the rates that the Department adopts in its final order in this case. While Verizon MA's objective is to have changes accounted for as quickly as possible, Conversent's 90-day proposal is overly ambitious and not practicable.

The final rates the Department adopts in this case will require that Verizon MA make two types of billing changes: revisions to existing rates, and adoption of entirely new and significantly different rate structures (as will be the case with many non-recurring rates). In both cases, the changes will have to be made both for prospective and retroactive billing purposes in two separate billing systems, Customer Records Information System ("CRIS") and Carrier Access Billing System ("CABS"). In addition, each of these billing systems have separate release schedules. Although neither modification is simple to implement, rate structure changes (or implementation of a new rate element) are far more labor-intensive and time consuming than modifications of existing rates. Straightforward rate changes can be implemented through updates to the rate tables in Verizon MA's systems; rate structure modifications, on the other hand, must be hard-coded in all of the relevant systems ? a process that requires many more programming hours. The 90-day deadline Conversent proposes is not practicable with respect to either type of rate modification, but it is particularly infeasible with respect to rate-structure modifications. And in both cases, the fact that the changes must be made retroactively, as well, makes the process even more time consuming: Verizon MA's systems often require separate implementation of prospective changes and retroactive adjustments, so that the latter process cannot begin until after the former has been completed.

Verizon MA intends to implement prospective straight rate modifications in 60-90 days from the time the details of the Department's final order are presented to each billing system. As noted above, however, modification of rate structures, implementation of an entirely new rate element, and delivery of retroactive adjustments involve more complex processes, and cannot be accomplished simultaneously. Thus, it is not feasible to provide, as Conversent requests, a "one-time adjustment to account for the rate changes for all of the wholesale services." (Conversent Letter). While Verizon MA of course intends to make the necessary modifications and adjustments as quickly as possible, and intends to implement these changes within an additional three monthly release periods per each system, it must work within the Information Technology department's scheduling process at the time the final order is released. Until that time, certainly, it is impracticable and unreasonable to require Verizon MA to commit to a particular deadline.

Finally, Conversent's apparent request for an "accounting" of all adjustments is premature: until all the modifications are made, Verizon MA could not even calculate any such accounting. In any event, Conversent's bills will reflect all applicable retroactive rate and rate structure adjustments; to the extent that Conversent has questions at that point, Verizon MA will work with Conversent to provide any necessary clarification. The Department should reject the request.

2. *WPTS Rates:* Finally, Conversent notes in its Comments that the non-recurring charge for hot-cuts will not be changed from existing rates in DTE Tariff No. 17 until the Department approves the process and rates for Verizon MA's alternative hot-cut process (known as WPTS) (Conversent Letter at n. 1). In Verizon MA's June 13, 2003 transmittal letter accompanying its revised compliance filing, Verizon MA noted that it had included WPTS rates and requested that the Department allow those tariffed rates to become effective, subject to the Department's subsequent investigation of the issue. Although the Department is expected to open a new docket addressing WPTS, Verizon MA noted that several CLECs are using WPTS already. Allowing the WPTS process and associated rates to become effective would benefit carriers who elect to use this service under the terms proposed by Verizon MA. Verizon MA therefore reiterates its request that the Department allow the WPTS rates to take effect.

Verizon MA notes that in a recent data request (CF Request-2), the Department inquired under what "regulatory authority" Verizon MA was providing WPTS given that the Department has not yet approved Verizon MA's proposed hot cut rates. As Verizon MA explains in the response it provides separately to that request, Verizon MA believes no specific regulatory authority is required for Verizon MA to offer an alternative hot cut process. In any event, the WPTS offering is optional and CLECs are free instead to continue to order hot cuts utilizing the current process.

Respectfully submitted,

Bruce P. Beausejour

cc: Marcella Hickey, Esquire, Hearing Officer
Tina Chin, Esquire, Hearing Officer
Michael Isenberg, Esquire, Telecommunications Director
Attached Service List